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C O N F I D E N T I A L SECTION 01 OF 03 DUBAI 000489

SENSITIVE  
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DEPARTMENT FOR NEA/FO; NEA/ARP/BMCGOVERN

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TAGS: [ETRD](#) [KIPR](#) [EFIN](#) [ECON](#) [PREL](#) [AE](#)  
SUBJECT: DUBAI SEEKS CASH AS COMMERCIAL DEBT LOOMS

REF: A. A: DUBAI 392  
[1](#)B. B: DUBAI 299  
[1](#)C. C: DUBAI 457

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CLASSIFIED BY: Justin Siberell, Consul General.

REASON: 1.4 (b), (d)

[1](#)1. (C) SUMMARY: The surprise announcement by Dubai mega-developer Nakheel that it had paid USD 1.2 billion toward its securitized debt obligations one month ahead of schedule energized debt markets and coincided with the Government of Dubai's own announcement of a new USD 6.5 billion bond sale road show. Although Nakheel and Dubai officials insist that the timing was merely coincidental, the two events, along with the government's recent payment of a matured USD 1 billion Dubai Civil Aviation Authority bond are clearly related and part of a Dubai strategy to attract new credit to finance old debt. With oil prices strong and investors drawn to the promise of higher long-term yields in the GCC, the strategy appears to be working as Dubai recently sold USD 1.9 billion in Sukuk bonds from the latest offering. Dubai may succeed in extending out payment schedules on its massive debt burden, but the prospects for it beginning to erase, as opposed to merely service, its debt remain uncertain. END SUMMARY.

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NAKHEEL DEBT PAYMENT ENERGIZES INVESTORS  
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[1](#)2. (C) Nakheel, the mega-developer behind some of Dubai's most outrageous real estate development schemes (Palm Island, "The World") announced a USD 1.2 billion securitized debt payment on October 19, which temporarily energized investors as prices on Nakheel's upcoming USD 3.5 billion Sukuk bonds climbed to 106 cents from 103. Nakheel's debt payment appears to have been timed to coincide with the Government of Dubai's announcement of a new bond sale road show that aims to raise USD 6.5 billion. Shortly after the new bond sale announcement, the government completed the sale of USD 1.9 billion in five year Islamic Sukuk bonds, the biggest Sukuk sale from the Gulf region this year. According to media reports, Suresh Kumar, who participated in the bond sale meetings and who is Chief Executive of Investments at Dubai-based bank Emirates NBD, noted that "not all of the bonds are expected to be sold immediately, but rather over time as they are needed."

[1](#)3. (C) Dubai's new bond program attracted fairly strong demand

from investors in a bond market eager to capture attractive spreads on the sovereign issuance. Although the government has not completed the entire bond sale, Essa Kazim, Executive Chairman of Dubai Financial Market, told Consul General and Econoff November 8 that the initial USD 1.9 billion bond sale tranche was oversubscribed, which would suggest that the government could easily raise funds from the yet unsold portion of the bond offering. Kazim speculated that investor interest was driven mainly by long-term bullish attitudes towards the GCC due to persistently high oil prices even as the global economy has remained in recession. Investors, he said, anticipate a windfall for GCC states as increased demand for oil accompanies an eventual return to global economic growth.

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BOND SALE GOOD FOR NAKHEEL AND DUBAI PUBLIC DEBT?  
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14. (C) It would seem the Government of Dubai plans to spend the cash generated from its bond sale program toward meeting its current public and private debts, which should be a good sign for Nakheel. At this stage, the total amount that the government may provide Nakheel is subject to speculation, especially since the developer continues to insist that it plans to resolve its debt burden on its own. Nevertheless, Dubai may quietly replenish Nakheel's coffers in order for the company to make a public payment on its "own" (Ref A). Dubai local media reported in May 2009 that the government provided Nakheel with at least one cash injection of an undisclosed amount from the USD 10 billion Dubai support fund last spring, which is also managed by the Dubai Department of Finance (Ref B). Nakheel chairman Sultan bin Sulayim told Consul General November 5 that despite the company's difficulties, banks remained committed to

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Nakheel, and therefore willing to renegotiate debt terms due to Nakheel's attractive asset portfolio. Of greater concern, according to Sulayim, was Nakheel's cash shortage which prohibited timely payments to contractors (Ref C).

15. (C) Additionally, the fact that the government repaid a USD 1 billion aviation bond on behalf of the Dubai Civil Aviation Authority on November 4 suggests that the proceeds from the recent USD 1.9 billion Sukuk bond sale are already being deployed to resolve current debt. Kazim noted that the Dubai Department of Finance had obligated the USD 1.9 billion Sukuk bond sale proceeds to wind down public utility debts, specifically mentioning the Civil Aviation Authority bond as the government's top priority for the new cash. He also noted that the additional proceeds expected from the remainder of the USD 6.5 billion bond had not yet been obligated but that some of it was slated for Dubai's Road and Transport Authority (RTA), known to be grossly overdue in payments owed to contractors on the Dubai Metro and multiple road expansion projects (Ref A).

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BONDS SOLD, BUT AT WHAT COST?  
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16. (C) As the government uses new debt to service old debt, investors have rightly demanded increased premiums in order to mitigate the still looming, although less likely potential of a

government default. Standard & Poor estimates that Dubai and its government related entities will have to pay or refinance roughly USD 50 billion in debt over the next three years - "an amount close to 70 percent of the Emirate's gross domestic product." Also according to media reports, economists estimate that Dubai will need to pay or refinance USD 10 billion by 2010, USD 12.1 billion in 2011, USD 15.2 billion in 2012 and USD 4.8 billion in 2013. Most market watchers believe that Dubai's total outstanding debt stands at more than USD 80 billion. A private real estate developer close to the Dubai leadership told Consul General November 10 that the Government's strategy is to extend out the due dates on about half its reported \$80 billion debt. The leadership felt confident, he said, that it could "live comfortably" carrying a long-term deficit of around \$40 billion.

17. (C) More risk tolerant investors have initially clamored to purchase the high-yield Dubai sovereign bonds as spreads have been priced just a level higher than junk bond status and mirror those offered by high risk Dubai private entities and other emerging market companies. Meanwhile the rest of the market continues to rationalize the uncharacteristically high spreads for the sovereign bond issuance and rightly speculates about the negative implications that the high interest rates could have for Dubai Inc. private entities who attempt to offer bonds at reasonable rates in the future. Local media, echoing DFM's Kazim, have noted interest in Dubai's bond sale is likely driven by the search among investors for greater returns than can currently be found in low-yield bond markets like the U.S.

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COMMENT  
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18. (C) Nakheel's recent debt payment was intended as a sign that the ailing real estate developer still has life left in it, despite rampant speculation that the company was all but finished. That early payment, in turn, laid the groundwork for Dubai's announcement of a new bond offering, which resulted in strong investor demand for new Dubai debt and subsequent proceeds from the sale of USD 1.9 billion in Sukuk bonds. Dubai's strategy appears to be to look to international capital markets to finance fiscal shortfalls and debt obligations rather than relying entirely upon Abu Dhabi to fill in the gaps. Dubai is banking on investors discounting the obvious risks that come with purchasing Dubai bonds in favor of the higher potential yields for those bonds compared to the anemic returns to be

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found in the U.S. and other mature markets. In the end, however, Dubai seeks to borrow now in order to pay back what it borrowed in the past, a formula that may catch up with it unless a dramatic (and currently unforeseen) turnaround occurs in the Dubai economy. END COMMENT  
SIBERELL